

RISK POLICY

Introduction

This is the Risk Policy of the Tower Hamlets Pension Fund, which is managed and administered by London Borough of Tower Hamlets. The Policy details the risk management strategy for the Tower Hamlets Pension Fund, including

- the risk philosophy for the management of the Fund, and attitudes to, and appetite for risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the risk management process.

London Borough of Tower Hamlets (“we”) recognise that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, we can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats.

We adopt best practice risk management, which will support a structured and focused approach to managing risks, ensuring risk management is an integral part in the governance of the Tower Hamlets Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pensions Committee and the Pensions Board, including scheme member and employer representatives. It also applies to the Head of Pensions & Treasury and managers in the Pensions and Treasury Team who have responsibility for pension matters, the Corporate Director Resources (S151 Officer) and Director of Finance, Procurement & Audit (Deputy S151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Junior managers and all officers involved in the daily management of the Pension Fund are also integral to managing risk for the Tower Hamlets Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Pensions & Treasury his/her team.

Advisers to the Tower Hamlets Pension Fund are also expected to be aware of this Policy, and assist senior officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

We recognise the significance of our role as Administering Authority to the Tower Hamlets Pension Fund on behalf of its stakeholders which include:

- around 22,400 current and former members of the Fund, and their dependants;
- around 45 employers; and

- the local taxpayers.

Our Fund's Mission Statement is:

- We will be known as forward thinking, responsive, proactive and professional providing excellent customer focused, reputable and credible service to all our customers.
- We will have instilled a corporate culture of risk awareness, financial governance, and will be providing the highest quality, distinctive services within our resources.
- We will work effectively with partners, being solution focused with a can-do approach.

One of our key governance objectives is to understand and monitor risk. In doing so, we will aim to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Pension Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Tower Hamlets Pension Fund we will aim to comply with:

- the CIPFA Managing Risk publication
- Scheme Advisory Board Good Governance Working Group recommendations
- the managing risk elements in the CIPFA Investment Pooling Governance Principles guidance and
- the managing risk elements of the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes.

Our Philosophy about Risk Management

We recognise that it is not possible or even desirable, to eliminate all risks. Accepting and actively managing risk is therefore a key part of our risk management strategy for the Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of our risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, we will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable us to anticipate and respond positively to change;

- minimise loss and damage to the Tower Hamlets Pension Fund and London Borough of Tower Hamlets Council as the Administering Authority, and to other stakeholders who are dependent on the benefits and services provided;
- make sure that when we embark upon new areas of activity (new investment strategies, joint-working, framework agreements etc), the risks they present are fully understood and considered in making decisions.

We also recognise that risk management is not an end in itself; nor will it remove risk from the Fund or us as the Administering Authority. However, it is a sound management technique that is an essential part of how we manage the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and the Pensions Regulator Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities

CIPFA has published guidance on investment pooling and the number of different risks this introduces for LGPS administering authorities. It also highlights how investment pooling potentially changes the magnitude of existing risks and how administering authorities might respond to them through appropriate internal controls.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

“249B Requirement for internal controls: public service pension schemes

(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—

- (a) in accordance with the scheme rules, and*
- (b) in accordance with the requirements of the law.*

(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.

(3) In this section, “enactment” and “internal controls” have the same meanings as in section 249A.”

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourage scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator’s code of practice guidance on internal controls require scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The Pension Board reviews the risk register quarterly and Policy while the Risk Policy is reviewed annually. The risk assessment should begin by:

- setting the objectives of the scheme;
- determining the various functions and activities carried out in the running of the scheme; and
- identifying the main risks associated with those objectives, functions and activities.

Schemes should then consider the likelihood of risks arising and the effect if they do arise as well as what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them

The code states risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that scheme should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

Application to the Tower Hamlets Pension Fund

We adopt the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator’s code of practice in relation to Tower Hamlets Pension Fund, and this Risk Policy highlights how we will strive to achieve those principles through use of risk management processes incorporating regular monitoring and reporting.

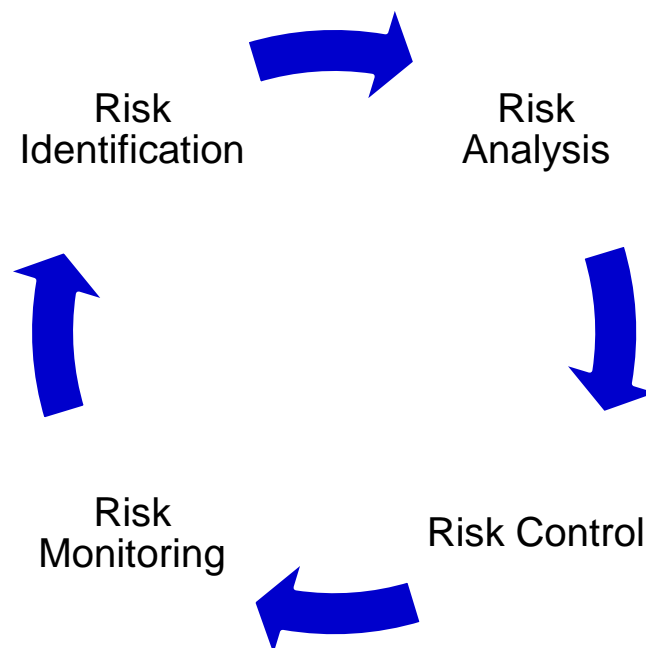
Responsibility

As the Administering Authority for the Tower Hamlets Pension Fund, we must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions & Treasury is the designated individual for ensuring the process outlined below is carried out subject to the oversight of the Pensions Committee.

However, it is the responsibility of everyone covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The Tower Hamlets Pension Fund Risk Management Process

Our risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections.



Risk identification and Likelihood and Impact Explanations

Our risk identification process is based on how the Tower Hamlets Council evaluation system incorporated in its Risk Management Strategy - proactive and reactive one, looking forward i.e. horizon scanning for potential risks and looking back, by learning lessons from reviewing how existing controls have manifested in risks to the organisation.

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises;
- performance measurement against agreed objectives;
- monitoring against the Fund's work and business plan;
- change in legislation;
- LGPS Scheme Advisory Board Guidance and good practice;
- findings of internal and external audit and other adviser reports;
- feedback from the Pensions Board, employers and other stakeholders;
- informal meetings of senior officers or other staff involved in the management of the Pension Fund; and

- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Climate Change Risk

The Pension Fund's Climate Change Policy can be found in the Investment Strategy Statement (ISS). The Risk Register also includes Climate Change related risks.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed against the following where the score for likelihood will be multiplied by the score for impact to determine the current risk rating.

| | | | | | | |
|------------------------------|----------------------|---|-----------------------------|-------------------------------|------------------------------|-------------------------|
| Impact (consequences) | Insignificant | Low | Low | Low | Low | Low |
| | Minor | Medium | Medium | Low | Low | Low |
| | Moderate | High | Medium | Medium | Low | Low |
| | Major | High | High | Medium | Medium | Low |
| | Catastrophic | High | High | High | Medium | Low |
| | | Almost certain > 80% | Likely 51% - 80% | Possible 21% - 50% | Unlikely 6% - 20% | Rare < 6% |
| | | Likelihood (probability) of risk happening | | | | |

Tower Hamlets Council's interpretation of risk exposure

| Level of risk | Level of concern | Action required |
|---------------|------------------|---|
| High | Very concerned | Action is required immediately |
| Medium | Concerned | Action is required within three months |
| Green | Content | The Council is willing to accept this level of risk |

When considering the risk rating, we will have regard to the existing controls in place and these will be summarised on the risk register.

Risk control

The risk register will also show what we consider to be the target risk score for each of the risks shown. This will help us determine whether any further action is required to control the risk which in turn may reduce the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can proceed, it may require Pensions Committee approval where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary we will update the Fund's work and business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Committee. In monitoring risk management activity, we will consider whether:




- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision- making process in relation to that risk
- there are any lessons to learn for the future assessment and management of risks.

[London Borough of Tower Hamlets Risk Appetite Chart](#)

| Risk Appetite chart | FINANCE / COMMERCIAL | COMPLIANCE | SAFETY | SERVICE DELIVERY | REPUTATION |
|--|--|--|--|--|--|
| AVERSE (safe / v low level exposure / very low reward / no empowerment beyond senior staff) | Minor loss < £1000 (In pursuit of progressive, dynamic and effective services, most areas could tolerate this loss) | Trivial, v short term single non-compliance. In pursuit of an overall objective, this could usually be tolerated. | Insignificant Injury (no intervention) – CYPs maintain this approach. | Negligible impact, unnoticed by stakeholders – clearly this is accepted. | Insignificant damage (eg – vague online negativity) - can be tolerated. |
| CAUTIOUS (guarded, low reward, empowerment just to Senior / middle managers.) | Small loss £1000 - £10,000 (eg – services like Treasury, Revenues & Benefits / Cashiers will not tolerate such losses so very little appetite here in this respect. But accepted in other areas) | Small, single, short-term non-compliance. (eg Elections Services cannot afford non-compliances so have very cautious approach). Other services could be more flexible | Minor Injury (Local intervention)Adult Social Care would need to be cautious | Small impact inconvenience (usually acceptable – if managed properly – in a project.) | Minor / v short term damage (Negative coverage from local media) – tolerable if backing a justified position. |
| MODERATE (balanced approach / medium reward / empowerment to frontline managers.) | Moderate loss £10,000 - £100,000 (Depending on a service, this could be countenanced in the context of a high level complex project, pensions strategy.) | Sustained single or a few short term non compliances. (this could be tolerated in pursuit of the greater good – eg printing free paper / allowing flexibility within housing / events etc) | Moderate Injury (professional intervention) – this falls outside tolerance / appetite. | Medium level impact & inconvenience (Sometimes acceptable – if managed properly – in a project / programme) | Moderate or short to medium term damage – (damaging coverage London-wide) – if the Council are clear in a position, it is right to defend. |
| OPEN (creative, higher exposure & empowerment to wide selection of staff) | Significant loss £100,000 - £1,000,000 (The delivery of the overall capital programme / investment strategy permits appetite for this possibility – albeit with many layered controls and mitigations) | Multiple sustained non – compliances. This would not be an expected approach and would be very difficult to ever justify. | Major Injury (hospital stay) – a risk like this could not be pursued. | Significant impact / serious inconvenience – could only be accepted in exceptional circumstances. | Major / medium term damage (negative national exposure). Unlikely to be tolerable – unless exceptional circumstances. |

| | | | | | |
|---|---|---|---|--|---|
| HUNGRY (pioneering / substantial risk exposure & reward / empowerment to all with few controls) | Substantial loss - >£1,000,000. This is not an amount the Council would be comfortable in actively allowing in pursuit of objectives. | Multiple, long-term, significant non compliances. (This hungry appetite in compliance is just not conceivable in Local Government.) | Fatal injury – this will obviously be out of the tolerance of our organisation. | Substantial / complete service failure. Not tolerable. | Substantial or sustained damage. (International coverage). Not within appetite. |
|---|---|---|---|--|---|

Criteria for assessing current and future risk exposure

| Symbol | Description |
|---|---|
|  | The current impact and likelihood of the risk are equal to, or less than, the target impact and likelihood. |
|  | The current impact and likelihood of the risk are individually no more than 2 classifications higher than the target, and the combined difference is no more than 3 classifications higher than the target. |
|  | The current impact and likelihood of the risk are individually more than 2 classifications higher than the target, and/or the combined difference is more than 3 classifications higher than the target. |

Reporting

Progress in managing risks will be monitored and recorded on the risk register and key information will be provided on a quarterly basis to the Tower Hamlets Pensions Committee and the Pensions Board as part of the regular update reports on governance, investments and funding, and administration and communications. This reporting information will include:

- a summary of the Fund's key risks;
- a summary of any new risks or risks that have changed;
- a summary of risks that have been removed since the previous report; and
- a summary of any changes to the previously agreed actions.

Monitoring of this Policy

In order to identify whether we are meeting the objectives of this policy the Fund will commission periodic Independent Governance review as recommended by the Scheme Advisory Board working group to provide an annual report on the governance of the Fund each year, a key part of which will focus on the delivery of the requirements of this Policy

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee members, , will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Pensions Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All costs relating to the operation and implementation of this Risk Policy are met directly by the Tower Hamlets Pension Fund.

Approval, Review and Consultation

This Risk Policy was 25 November 2021 Pensions Committee meeting for approval. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Risk Policy, please contact:

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